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SUBJECT: INDIA SCENESETTER FOR THE SECRETARY

Classified By: Ambassador David C. Mulford. Reasons: 1.4(B, D).

¶1. (SBU) Madame Secretary, we welcome your upcoming visit and offer this overview of the bilateral relationship. Coming only hours after hoped-for congressional approval of the U.S.-India Civil Nuclear Agreement, your visit gives us a chance to mark this milestone in the relationship while pushing forward on the full range of bilateral issues. The unprecedented level of U.S.-India collaboration encompasses everything from defense cooperation to agriculture and reflects widespread support in both countries for broadening existing ties and building new ones. American industry's discovery of the opportunities in India have reinforced a partnership built on a 2.5 million strong Indian-American community. With plans to double their investments in India, Microsoft, Cisco Systems, Intel and others realize that India has the brain power necessary to make their firms competitive, especially in the flourishing Indian market. Visa issuances to Indians have skyrocketed. India is now the leading non-U.S. destination for National Institutes of Health research grants, and the largest supplier of foreign students to U.S. universities. Our militaries are moving closer together with increasingly sophisticated joint exercises, shared research and development, and the potential for important acquisitions that could create thousands of American jobs while aligning our countries strategically.

¶2. (SBU) While Indian officials would be loathe to admit publicly that India and the U.S. have begun coordinating foreign policies, we are working more closely together than we ever have before, as shown by our parallel efforts to assist Afghan reconstruction and to maintain regional stability in Nepal. This cooperation reflects a transformation in India. For many decades, the default position was distrust and suspicion, but now we see an India that seeks increasingly to further shared interests. As a result, the Prime Minister's government -- more than any previous Indian government -- has set out to align itself with U.S. policies and practices as the means of emerging as a global player. Nothing better reflects this commitment than the Prime Minister's willingness to risk his government in the July 22 confidence vote over the civil nuclear initiative. No Indian Prime Minister ever before staked his government on a foreign policy issue, much less one that involves strengthening ties to the United States. But significant obstacles still stand in the way of achieving this broader vision: the Left parties who quit the PM's coalition over the nuclear deal will continue to carp from the sidelines about the U.S.-India relationship in the run up to parliamentary elections early next year. The United Progressive Alliance (UPA) government must manage its own old school skeptics while fending off challenges from the

opposition Bharatiya Janata Party (BJP) and regional parties.

While these political twists and turns will no doubt influence the speed at which India is prepared to pursue bilateral cooperation, the important point is that the Indian parliament (and public) were fixated in an unprecedented manner on India's relationship with the U.S. for months on end and decided, finally, to pursue cooperation.

Civil Nuclear Cooperation Initiative

13. (C) Following the passage of the U.S.-India Nuclear Cooperation Approval and Nonproliferation Enhancement Act by a large bipartisan majority in the House on September 27, approval by the Senate will be the last step prior to signature of the Agreement. The Initiative has been the centerpiece of efforts to strengthen our bilateral relations since the July 2005 Joint Statement by the President and PM Singh. This will be the most significant milestone in our growing partnership with India and a potent symbol of its potential. India shares our vision of the Initiative as an essential part of transforming the overall relationship and will view the signing of the 123 Agreement as an historic event. The Prime Minister appreciates the role played by the U.S. in securing for India an exception in the Nuclear Suppliers Group and thus ending 34 years of India's so-called "nuclear apartheid." Other officials appear to have more mixed feelings, judging from the insensitive management of your visit.

14. (C) The nuclear deal has been a lightning rod for

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opponents of PM Singh's UPA government. As the Parliament prepares to reconvene in mid-October with elections not too far off next year, the opposition is likely to use statements made during our own legislative process to suggest that the Prime Minister misled the Indian people on key aspects of the deal, such as the reliability and legal status of U.S. fuel supply assurances. Concerns about ambiguities in the agreement could also complicate or delay commercial prospects for U.S. firms in the civil nuclear sector. The Indian Government plans to sign bilateral agreements for civil nuclear cooperation with France on September 30 and with Russia in December; Indian opponents of a closer U.S.-India strategic partnership often portray Paris and Moscow as more permissive and reliable commercial partners. However, these agreements cannot be operationalized until India signs its IAEA Safeguards Agreement. Indian officials insist that they will not sign such an Agreement until they have signed the 123 Agreement with the U.S. You can expect your interlocutors to ask for your candid assessment of the prospects for commercial civil nuclear cooperation and what it will mean both for India and for the bilateral relationship.

Regional Issues

15. (C) Under Prime Minister Singh's leadership, the Government of India is emerging as a responsible leader in the region, as well as Asia at large. India hosted a successful visit by President Karzai in early August and agreed to chip in a "new" 450 million dollars in reconstruction aid for Afghanistan on top of the 750 million dollars India had already declared. India encourages democracy in the region, but is worried by continuing political instability in both Nepal and Bangladesh and by the surge in violence in Sri Lanka. We still diverge with India over tactics towards Iran and Burma, although we ostensibly share the same goals. In France on September 29, PM Singh restated India's opposition to Iran's nuclear weapons ambitions. We have followed closely as India and China have sought warmer relations by engaging in a strategic dialogue that separates the contentious border issues from a broader engagement. Their bilateral trade has been growing at about

40 percent annually, but India's large trade deficit with China has led to worries among Indian businesses. New Delhi is searching for ways to engage the new civilian government in Islamabad while remaining wary of Pakistan's ongoing turmoil. They are not certain as to who's in charge post-Musharraf and are deeply worried that extremists are taking advantage of the situation to launch more cross-border attacks. Anger over the bombing of India's Kabul Embassy in July is still fresh and the Indians have been outspoken in saying the ISI was behind it. One positive step is the agreement between PM Singh and President Zadari last week at UNGA to authorize a significant expansion in cross-border trade.

Domestic Politics

16. (C) The election campaign never ends in India because there is always an important poll just around the corner. The current political season has just kicked into higher gear as national elections and some key state elections are due in the next few months. The current Congress Party-led United Progressive Alliance (UPA) coalition government will stagger into its final few months bruised and battered by a series of setbacks in state elections during the last year and soaring inflation. It managed to slow the rot by confronting its Left Party allies over the U.S.-India civil nuclear deal and winning the key July 22 Parliamentary trust vote. The afterglow of its triumph was short-lived, however, as it was followed quickly by a series of terrorist bombings across India which left the Indian public disconcerted. Renewed violence in Jammu and Kashmir -- which has since quieted -- also raised questions about the UPA's ability to manage national security issues with a sure hand. In contrast, the opposition Bharatiya Janata Party (BJP), had the wind in its sails after its thumping wins in state elections over the last year, but suffered a severe setback in July when it was defeated in the trust vote. It is impossible to predict now which party will emerge on top in the national elections. But it is safe to say that neither the Congress Party

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nor the BJP is likely to win a majority on its own and either will have to forge a coalition with the smaller regional parties to form a government. While both the BJP and the Congress support a closer U.S.-India relationship, their ability to move forward aggressively will be constrained by the disproportionate power of smaller parties which have narrower agendas that frequently do not extend to foreign policy issues. Nevertheless, the nuclear deal and a closer strategic relationship with the United States have generated an extraordinary public debate in India during the last year.

We have won this debate hands down and, as a result, the U.S.-India relationship has a strong foundation on which to grow over the coming decades.

Advani, the Nuclear Deal and Religious Violence

17. (C) Opposition Leader L.K. Advani has been a persistent critic of the nuclear deal, regularly misrepresenting the contents of the agreement or making claims that India will be deprived of its sovereignty and become subservient to the U.S. under the pact. After the BJP lost the confidence vote, there were some rumblings in the ranks that Advani had not shown a sure touch in seeking the debate. Former National Security Advisor Brajesh Mishra has told us that Advani has only one goal -- election as PM -- and everything else is secondary, including the BJP's own role in beginning the process that led to the Initiative. Mishra has also told us that it has dawned on Advani to reconsider the costs versus benefits of further nuclear testing by any government led by his party, which we see as compelling evidence that bringing India into the global civil nuclear club fundamentally changes the political calculus in Delhi.

18. (C) When you see Advani (as well as with the PM and EAM Mukherjee), you should stress our concerns about the recent violence directed primarily at Christians in Orissa and Karnataka. In Orissa, the violence is spurred by many factors; in addition to religious differences, caste, ethnicity, property and land disputes all play a role. In Karnataka, members of a militant Hindu group, the Bajrang Dal, have claimed credit for launching attacks against churches and believers. They justify their violence by claiming that Christian groups engage in "forced" conversions and distribute anti-Hindu literature. In each case, the state governments have been slow to act and have been repeatedly pressed by the central government to restore order immediately. Advani made a statement on September 29 which condemned the attacks in Orissa and Karnataka and urged inter-religious dialogue. However, members of Hindu chauvinist groups like the Bajrang Dal often participate in politics through their membership in the BJP.

Terrorism

19. (C) While inflation, development and regional issues will all play a role in the elections, terrorism and the government's response to it has increasingly become a political issue as India continues to rank among the world's most terror-afflicted countries. Terrorist strikes by Islamic extremists nationwide, including bombings in New Delhi on September 13 that claimed more than 30 lives, disrupt activity across the country. Add to that continuing tensions in Jammu and Kashmir, extreme leftist Naxalites and Maoists who act with impunity in eastern and central India and ethno-linguistic conflicts that still simmer in the northeastern states. The police have arrested several suspects in the latest Delhi bombings who are allegedly connected to the Students' Islamic Movement of India (SIMI). Indian officials often point to Pakistan's Internal Services Intelligence (ISI) as being behind many attacks. The extreme leftists (Naxalites) and ethno-linguistic separatists are in general home-grown insurgents, although there are some signs of links to groups in Nepal and Bangladesh. The opposition has made political hay out of the recent terrorist attacks, claiming that the Congress-led government is weak and ineffectual on terrorism. We have an ongoing dialogue with India on counterterrorism led by Ambassador Dell Dailey. An August 25 meeting in New Delhi focused on ways to make our cooperation more concrete and developed a range of action items.

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Economic Ties

10. (SBU) The U.S.-India economic relationship, for decades narrow and circumspect, is gathering steam and is becoming a key driver of our overall bilateral relationship. The United States is India's largest trading partner and its largest foreign investor. Two-way trade grew to a record 42 billion dollars last year, its highest level ever, with U.S. exports surging 75 percent. We are well on our way to meeting our publicly stated goal of doubling bilateral trade by the end of 2008. India and the U.S. are only a few weeks away from their annual CEO Forum and Economic Dialogue in New York. Since 2005, the top ten CEOs from India and the U.S., along with top economic officials including Treasury Secretary Paulson, Commerce Secretary Gutierrez, USTR Schwab, Indian Finance Minister Chidambaram, and Indian Planning Commission's Montek Singh Ahluwalia, meet to discuss bilateral policy steps to further improve trade and investment flows. The President discussed Doha with PM Singh last week. The problem as we see it is that the Prime Minister is unwilling or unable to rein in Commerce Minister Nath, who has political ambitions of his own, and is using the UPA's concern about alienating Indian farmers before upcoming national elections to take a hard line position.

You should stress to Indian leaders during your visit the importance of showing flexibility in Geneva if we are to get an agreement on modalities by year's end.

¶11. (SBU) The Indian economy continues to be the second fastest growing economy after China, even as high global commodity prices and financial uncertainty are prompting a moderation in the expected GDP growth rate to 8 percent this year. In the near term, the fallout from the U.S. financial crisis is likely to be minimal in India, although the Embassy expects the crisis to complicate our ongoing policy discussions with India on needed and overdue liberalization of its financial sector. In the medium term, India will find it hard to increase or even sustain its high growth rates unless it undertakes a second generation of critical but politically difficult reforms. While the government is led by economists who understand what needs to be done, the economic reform program was stalled for a long time as the UPA confronted strong opposition from the Left, BJP and within the Congress party itself. Since the Left withdrew its support, the government has implemented some reforms that did not require legislation, but Parliamentary action appears unlikely given electoral concerns. As it is, lagging growth in agriculture and weak -- but improving -- infrastructure constrain growth. Economic liberalization has been slow to come to the agricultural sector, which supports more than half of the country's population and yet accounts for only 18 percent of GDP. The top Indian economic priorities are infrastructure development and spreading economic benefits into rural India.

Bilateral Issues -- Opportunities to Build Partnerships

¶12. (C) We wanted to highlight two topics in the bilateral relationship that merit special focus -- defense and agriculture. On defense cooperation, the U.S. and India have conducted a series of joint and service-to-service exercises of increasing scope and capability since sanctions were lifted in 2001. Last year saw the first-ever visit by a nuclear aircraft carrier to India and India's largest multilateral naval exercise in modern history, MALABAR 07-02.

Planning is ongoing for the bilateral MALABAR 08 this October. Over the summer, U.S. Army Special Forces exercised at the Indian Counter-Insurgency Jungle Warfare School in the northeastern state of Mizoram while eight Indian Air Force SU-30s were taking part in the Red Flag air combat exercises at Nellis Air Force Base in Nevada. The Indian government has also indicated far more interest in acquiring defense items and building an arms relationship with the U.S. Defense sales, dormant for over 40 years while India was essentially a Soviet client, have just started to take off, with a billion dollar deal for six C-130s completed in January as the latest breakthrough. We're hoping to finalize a separate billion dollar deal for P-8 maritime patrol aircraft, and both Boeing and Lockheed Martin are competitors for the estimated 10 billion dollar combat aircraft bid to be decided in 2009. At the same, the Russians and Indians

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defense relationship has been buffeted by complaints over deliveries and spare parts -- Russian Defense Minister Serdyukov left New Delhi September 29 without reaching a deal on the Admiral Gorshkov aircraft carrier project, which has been plagued by substantial cost overruns and years of delay.

While there is a real opportunity for the U.S. here, India's slow-rolling on three key defense agreements -- end use monitoring for military systems with sensitive U.S. technologies, a logistics support agreement to facilitate joint military exercises, and a communications agreement to foster interoperability -- is an obstacle to realizing the promise of full strategic partnership.

¶13. (SBU) On agriculture, with the Agricultural Knowledge Initiative (AKI) ending this year following its 2005 launch by President Bush and PM Singh, the Indians have told us they

are eager to continue bilateral cooperation in this sector that employs more than two-fifths of all Indians workers, most at a subsistence level. The Indians have responded positively to our concept of a four pillar approach -- productivity, market efficiency, environmental sustainability, and finance/insurance -- that would procedurally look similar to our successful Energy Dialogue with India. However, we will not be able to table our proposal to India until we can back it up with significant USG funding. The Indians will ask you what is the likelihood of U.S. funding for a bilateral agricultural initiative next year.

The Rest of India -- Health, Education, Energy

¶14. (SBU) Despite India's stunning economic growth during the past fifteen years, roughly 300 million Indians live on less than a dollar a day; 700 million Indians live on less than two dollars a day. An unhealthy population constrains economic growth in parts of India; some states in northern India possess health indicators on-par with the poorest countries of sub-Saharan Africa. According to most recent estimates, India with 2.5 million HIV/AIDS cases is the third highest HIV/AIDS infected population worldwide, after South Africa and Nigeria. One quarter of the world's deaths of children and women in childbirth occur in India. Forty-six percent of children under 3 years of age are malnourished. Poor health conditions take an economic toll in various ways, including continued expenditures on combating diseases that should have been eliminated and decreased labor productivity and human capacity. India's education system is not providing the numbers of people with the necessary skills for the modern economy because of poor quality primary education and limited vocational training. The impact of poor basic education and work force development is that sixty percent of children drop out before grade 10 and 10 million children are out of school. Finally, while India's energy consumption has more than doubled over the last quarter century, half of the country's population still lacks easy affordable access to electricity. India realizes the threats these challenges pose to its continued economic progress. Indian public and private sector partners look to U.S. expertise and knowledge, including through the U.S. assistance program, to direct resources with appropriate policies, strengthened institutions and state-of-the-art technologies and expertise.

Your Meetings

¶15. (SBU) We have requested meetings for you with Prime Minister Singh, Sonia Gandhi, and Opposition Leader L.K. Advani. External Affairs Minister Mukherjee will host a relatively large working dinner for you. We also hope you have a chance to do a Meet and Greet at the Embassy. The official meetings will be a chance to celebrate the historic achievement represented in the civil nuclear agreement while looking forward to broader areas of cooperation that underline the U.S.'s interest in building a strong strategic relationship with India.

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